

ALJEFFRI & CO

PUBLIC ACCOUNTANTS (M)

1994  
Budget Summary

*Friday, October 29, 1993*

October 29, 1993

To: Our clients, friends and overseas affiliates

### 1994 BUDGET SUMMARY

This is the eleventh year of our firm's tradition in the presentation of the Budget Summary on the budget day. We are happy to once again furnish for your appreciation our summary and synopsis of the 1994 Budget Proposals.

This summary is based on the budget speech delivered by the Honourable The Minister of Finance, Dato Seri Anwar Ibrahim to the Parliament on October 29, 1993. In compiling this summary we have concentrated on those matters which we consider to be of importance or interest to the readers. Our synopsis comprising particulars of budget proposals on a comparative basis over a period of seven years together with the summaries of the taxation amendments affords an opportunity to the readers to assimilate information useful to them.

The summary is divided into the following sections:

SECTION		PAGE
A	Foreword and Executive Summary	1
B	Highlights	6
C	Summary of Amendments to Direct Taxation	11
D	Summary of Amendments to Indirect Taxation	23
E	Synopsis and Comparison	28
F	Summary of Revenue and Allocation	55

## SECTION A

### FOREWORD AND EXECUTIVE SUMMARY

We congratulate the Honourable The Minister of Finance, Dato Seri Anwar Ibrahim for managing the Malaysian economy so successfully. The 1994 Budget Speech presented on October 29, 1993 was only his third but he has demonstrated that he as a Finance Minister can steer Malaysia to meet the challenges of the 21st century. He has also demonstrated that he has the skills to manage success.

The signs of success are obvious - sustained high rate of economic growth, a balanced budget, low inflation, impressive performance of the Kuala Lumpur Stock Exchange, progressive reduction of tax rates and improved benefits for the Rakyat.

#### BALANCED BUDGET

Dato Seri Anwar Ibrahim has the distinction of achieving a balanced budget for Malaysia, a goal which many nations aspire to attain. The financial discipline mentioned in the last budget has attained the desired result as total expenditure (both operating and development) is expected to amount to \$41.03 billion against an expected Government revenue of \$41.23 billion. This has been achieved despite the reduction in taxes. The GDP is expected to increase by more than 8% in 1993, a growth rate maintained for six successive years. Inflation has been contained. For the first 9 months of 1993 the Consumer Price Index increased by only 3.7%. The unemployment rate has decreased to 3%, indicating that Malaysia is in full employment situation. Per capita income increased from \$7,554 in 1992 to \$8,350 in 1993. At this rate of increase it is probable that Malaysia will attain developed status by the year 2020.

#### 1994 BUDGET OBJECTIVES

In essence the 1994 Budget is to maintain the success achieved through several measures; to sustain strong economic growth with low inflation, maintain fiscal prudence, enhance human resource development based on skill and technological capability, address the issue of infrastructural constraints, equitable distribution of income and enhancing the quality of life.

## **CORPORATE INCOME TAX AND INVESTMENT ALLOWANCES**

One of the proposals is to encourage private investment by reducing corporate income tax rate in stages and a review of the incentives to make it more attractive to investors. The rate of company tax, already reduced by 3% overall for assessment year 1993, is further reduced by 2% to 32% for assessment year 1994 and to 30% in the following year. With this reduction, the company tax rate will compare favourably with those of neighbouring countries. To encourage investment in petroleum exploration and production, the income tax rate is reduced from 45% to 40% from assessment year 1994 and export duty on crude oil is reduced by 5% to 20% from January 1, 1995. To encourage reinvestment by existing industries, the allowance for large-scale industries is increased to 50% from 1994 thus standardizing the reinvestment allowance for all companies irrespective of size. Furthermore this incentive which is due to expire at the end of 1995, is to be extended indefinitely.

## **PERSONAL INCOME TAX**

Tax reliefs for individuals include an increase in tax rebates for the taxpayer from \$60 to \$90 and for his wife from \$30 to \$50. The relief for EPF contributions, insurance and takaful premiums was increased by \$1,500 to \$5,000.

Taking account of all the proposed reliefs for the individual taxpayer, the impact would exempt individuals earning a monthly income of \$1,700 and below from the tax net. In other words people in the middle to lower income groups would have a greater disposable income which in turn will stimulate demand for goods and services thereby providing an impetus to local industry. These measures coupled with reduced import duties would enable them to enjoy a higher standard of living.

## **INFLATION**

With prolonged growth, inflation will remain a threat. To reduce inflation, several solutions were proposed. To control liquidity, the Government will not allow interest rates to come down without justification. To reduce prices, the import duties on more than 500 items will be reduced or exempted, in addition to the 600 items already reduced last year. To ensure that the traders pass on the benefits of the reduced duties, the Ministry of Domestic Trade and Consumers Affairs has been given an increased allocation to intensify enforcement.

### **SAVINGS INCENTIVES**

To encourage savings, the maximum reduction allowed for EPF contributions by employers has been increased from 15% to 16% from assessment year 1994. Further encouragement is given to depositors by exempting gains and profits received from interest-free savings schemes.

### **DEVELOPMENT PROGRAMME FOR THE POOR AND LOW COST HOUSING PACKAGE**

Several measures were announced in respect of the Government's objective of fostering a balanced and equitable society. The Development Programme for the Hard-Core Poor, is being allocated an additional \$149.1 million, not including the programmes for rural development.

To address the serious housing problems faced by the low and medium income groups in large urban centres, the Minister proposes to implement a low-cost housing package involving a sum of \$1.404 billion. This involves an allocation of \$504 million under development expenditure and the creation of a Low-Cost Housing Fund with a capital of \$900 million. This fund will be used to provide concessionary financing to developers to accelerate the construction of low-cost housing in approved schemes, with Bank Negara providing the funds to financial institutions to lend to developers at a nominal interest rate. The Fund will also be used to finance the building of flats to be rented out to the very poor.

### **HUMAN RESOURCE DEVELOPMENT AND RESEARCH AND DEVELOPMENT PROGRAMMES**

Consistent with the country's march towards a higher level of industrialisation, the Government continues to give priority to enhancing skills and technological competence. Several measures were therefore announced on human resource development and research and development programmes.

A sum of \$86.3 million will be allocated to develop 314 hectares in Bukit Jalil for a Technology Park which will provide for research and development facilities.

To increase the scale of research and development facilities by the private sector, companies establishing research and development centres for the needs of their holding, subsidiary or affiliated companies be granted a new incentive in the form of a research allowance of 100% on qualifying capital expenditure for a period of 10 years. For companies with in-house research and development, an additional incentive in the form of a research allowance of 50% on qualifying capital expenditure is proposed.

To enhance human resource development, increased allocations are being provided to a number of Government agencies and institutions.

### **SERVICE TAX**

The scope of the CJP or sales and service tax has been widened to include courier, parking bay, dental and veterinary services. Consequently the Minister has exempted import duties on a further 500 items thereby avoiding incidence of double taxation on the consumer.

As a method of indirect taxation, the sales and service tax is more effective than import duties and it provides relief to the businessman and shifts the incidence of tax to the consumer who uses these specialised services. This is better fiscal management as it is highly selective in imposition and effectively releases cash resources to the businessman for further investment as he does not have to pay taxes upfront and recover subsequently from the consumer. However, it is a matter of concern that a category of health services has been caught in this net as it would entail high costs in an essential service availed of by the general public. This may run contrary to the Government's intention to promote a caring society.

### **REVENUE AND EXPENDITURE**

An analysis of the budgeted revenue and expenditure is set out in Section F of the Budget Summary. Of utmost importance is the Government's efforts in improving infrastructure with increased allocations on economic services especially on transport related projects. \$465 million is provided for the continuation of the Double Tracking and Electrification Project to improve the handling capacity for cargo, containers and passenger traffic. A further allocation of \$205 million has also been made for the construction of the Kuala Lumpur International Airport in Sepang. The Light Rail Transit Project costing \$1.2 billion has also been planned to overcome traffic congestion in Kuala Lumpur.

### **CONCLUSION**

The Minister has presented a well-rounded budget with the broad aim of meeting the country's objectives of being a developed nation and to ensure a more equitable distribution of the nation's wealth. By reducing the corporate tax rate and reviewing other incentives and by addressing the infrastructural constraints, the Government has further improved the investment climate of the country.

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The Government has also shown that it cares for the Rakyat by reducing the prices of a wide range of goods and by the proposal for a low-cost housing package. By granting additional reliefs, the Government has also increased the disposable income of individuals.

There is every reason to be optimistic that the measures proposed in the 1994 Budget will lead towards the stated objective of attaining industrialised status, prosperity and social harmony.

for ALJEFFRI & CO.



.....  
Syed Amin Aljeffri  
MANAGING PARTNER

HIGHLIGHTS

\* REDUCTION OF THE INCOME TAX RATE FOR COMPANIES AND NON RESIDENTS

- TO 32% EFFECTIVE FROM YEAR OF ASSESSMENT 1994
- TO 30% EFFECTIVE FROM YEAR OF ASSESSMENT 1995

\* REVIEW OF THE TAX STRUCTURE FOR THE UPSTREAM PETROLEUM INDUSTRY

- PETROLEUM INCOME TAX RATE REDUCED TO 40%
- EXPORT DUTY ON CRUDE OIL RATE REDUCED TO 20%

\* EXTENDING AND INCREASING THE RATE OF REINVESTMENT ALLOWANCE (RA)

- TO 50% AND EXTENDED BEYOND DECEMBER 31, 1995

\* ADDITIONAL INCENTIVES FOR APPROVED INVESTMENT OVERSEAS

- REMITTED INCOME WILL ONLY BE TAXED AT A RATE OF NOT MORE THAN 10%
- EXTENDED TO COMPANIES UNDERTAKING CONSTRUCTION PROJECTS AND COMPANIES PROVIDING SERVICES IN THE OIL AND GAS INDUSTRY OVERSEAS

\* INCREASE OF THE TAX REBATE FOR INDIVIDUALS

- TO \$90 FOR THE TAX PAYER AND TO \$50 FOR HIS WIFE



- \* INCREASE OF THE TAX RELIEF FOR EPF AND INSURANCE OR TAKAFUL
  - TO \$5,000
  
- \* INCREASE OF EMPLOYERS DEDUCTION FOR EPF CONTRIBUTIONS
  - MAXIMUM ALLOWABLE RATE FOR DEDUCTION INCREASED TO 16%
  
- \* WIDENING THE SCOPE OF SERVICE TAX
  - TO COVER COURIER, PARKING BAY, DENTAL AND VETERINARY SERVICES
  
- \* INCREASE OF STAMP DUTY ON CONTRACT NOTES FOR THE SALE AND PURCHASE OF SHARES
  - BY 50 CENT
  
- \* REVIEW OF IMPORT DUTY ON SUPERBIKES
  - TO 120%
  
- \* REDUCTION OF IMPORT DUTIES/SALES TAX/EXCISE DUTIES ON COMPONENTS/CONSUMER GOODS
  - ON SELECTED INFANT BABY FOOD, BUILDING MATERIALS, CONSTRUCTION EQUIPMENT, COMPONENTS AND MEDICAL EQUIPMENT AND MOTOR VEHICLE SPARE PARTS

- \* EXEMPTION OF WITHHOLDING TAX ON GAINS OR PROFITS FROM INTEREST-FREE BANKING SCHEME
  
- \* REVIEW OF RELIEF FOR CHILDREN AT INSTITUTIONS OF HIGHER LEARNING
  - INCREASE UP TO FOUR TIMES THE NORMAL CHILD RELIEF FOR A CHILD PURSUING HIGHER EDUCATION LOCALLY
  - REDUCTION TO TWO TIMES THE NORMAL CHILD RELIEF FOR A CHILD PURSUING HIGHER EDUCATION ABROAD
  
- \* INCENTIVES FOR HIGH TECHNOLOGY INDUSTRY AND RESEARCH AND DEVELOPMENT ACTIVITY
  - RESEARCH ALLOWANCE ON QUALIFYING CAPITAL EXPENDITURE
  
- \* INCENTIVES FOR INDUSTRIES IN THE EASTERN CORRIDOR OF THE PENINSULAR, SABAH AND SARAWAK
  - ELIGIBLE COMPANIES WOULD BE SUBJECT TO AN INCOME TAX RATE OF 5% ONLY
  
- \* PUBLIC HOUSING PROGRAMME
  - EXPENDITURE ON THE CONSTRUCTION OR PURCHASE OF HOUSES BY MANUFACTURING COMPANIES FOR THEIR WORKERS BE ALLOWED AS A DEDUCTION FOR TAX PURPOSES

\* **HOUSING LOAN UNDER ISLAMIC PRINCIPLES**

- SETTING UP OF NEW HOUSING LOAN SCHEME BASED ON THE CONCEPT OF BAI'BITHAMAN AJIL OR DEFERRED SALE
- CREATION OF A NEW UNIQUE FINANCIAL INSTRUMENT NAMELY, THE BON MUDHARABAH CAGAMAS
- THE INTRODUCTION OF THE FIRE PROTECTION INSURANCE SERVICE AND THE MORTGAGE POLICY IN ACCORDANCE WITH THE PRINCIPLES OF ISLAM

\* **CONSERVATION OF ENVIRONMENT**

- PRICE OF UNLEADED PETROL REDUCED BY 3 CENT PER LITRE
- FOREST PLANTATION ACTIVITIES ELIGIBLE FOR FULL EXEMPTION OF PIONEER STATUS FOR 10 YEARS OR 100% INVESTMENT TAX ALLOWANCE FOR 5 YEARS
- CONTRIBUTION TO APPROVED ORGANISATIONS DEALING WITH ENVIRONMENTAL CONSERVATION BE ALLOWED AS A DEDUCTION FOR INCOME TAX PURPOSES

\* **INCENTIVES TO PROMOTE SCIENTIFIC, INTELLECTUAL AND CREATIVE ACTIVITIES AND AESTHETIC VALUES**

- ALL DONATIONS TO NATIONAL TRANSLATION INSTITUTE OF MALAYSIA ARE TAX EXEMPT
- FEES ARISING FROM ACADEMIC AND CREATIVE ACTIVITIES IN BAHASA MALAYSIA ARE EXEMPT FROM INCOME TAX
- DONATION BY COMPANIES OF UP TO \$100,000 TO ESTABLISH AND EQUIP LIBRARIES BE ALLOWED AS A DEDUCTION FOR INCOME TAX PURPOSES
- IMPORT DUTY ON ORIGINAL WORKS OF ART INCLUDING CALLIGRAPHY AND ETCHINGS BE ABOLISHED

\* **DEDUCTION ON EXPENDITURE FOR PROVIDING CHILD CARE FACILITIES FOR EMPLOYEES**

- EXPENDITURE ON THE CONSTRUCTION OR PURCHASE OF A BUILDING FOR SUCH PURPOSES BE ALLOWED A SPECIAL BUILDING ALLOWANCE OF 1/10 OF THAT EXPENDITURE

\* **INCENTIVES FOR OPERATIONAL HEADQUARTERS**

- EXTENDED TO COVER COMMERCIAL AND INVESTMENT BANKING SERVICES

\* **INCENTIVES FOR TOURISM INDUSTRY**

- TAX EXEMPTION GRANTED ON INCOME GENERATED FROM BRINGING IN AT LEAST 500 TOURISTS HAS BEEN EXTENDED TO THE YEAR OF ASSESSMENT 2000.
- IMPORT DUTY ON MOTORISED HOMES REDUCED TO 35%

\* **LOW COST HOUSING PROGRAMME**

- ALLOCATION OF \$1.404 BILLION TO PROVIDE CONCESSIONARY FINANCING TO DEVELOPERS TO ACCELERATE THE CONSTRUCTION OF LOW COST HOUSING IN APPROVED SCHEMES

**SECTION C**

**ANALYSIS ON AMENDMENTS TO DIRECT TAXATION**

**1. TAX DEDUCTION ON EXPENDITURE FOR CHILD CARE CENTRE**

Presently expenditure, other than capital expenditure, incurred by an employer in providing child care facilities is allowed as a deduction.

**Proposal:**

It is proposed that expenditure on the construction or purchase of a building for such purposes be allowed a special building allowance of 10% of that expenditure annually for a period of 10 years.

**Impact:**

This is a generous allowance and will certainly encourage employers to establish child care facilities for their employees which may well act as a catalyst to encourage strong women representation in the labour force.

Effective date: Year of Assessment 1994.

**2. INCENTIVES FOR OPERATIONAL HEADQUARTERS**

Presently, operational headquarters incentives are given only for the provision of qualifying services rendered to companies in the manufacturing and selected service sectors.

**Proposal:**

It is proposed that the incentives be extended to cover services provided to commercial and investment banking companies.

**Impact:**

This proposal is expected to attract more multinationals to establish their operational headquarters in Malaysia.

Effective date: Year of Assessment 1994.

**3. INCENTIVES FOR TOUR COMPANIES**

Presently, tour companies that bring in at least 500 foreign tourists through group tours are given full abatement of adjusted income arising from the business of bringing in foreign tourists. This however is restricted to only income derived from tourists that enter and leave Malaysia by air and will cease from year of assessment 1993.

**Proposal:**

It is proposed that this incentive be extended until the year of assessment 2000 and to include businesses on foreign tourists arriving by land or sea.

**4. REDUCTION OF THE INCOME TAX RATE FOR:**

**4.1 COMPANIES**

Presently, the income tax rate for companies is 34%.

**Proposal:**

It is proposed that the income tax rate for companies be reduced to 32% effective from the year of assessment 1994. This rate will be further reduced to 30% effective from the year of assessment 1995.

**4.2 Non-residents and executor of a deceased individual domiciled outside Malaysia.**

Presently the rate of tax for individuals in these categories is 34%.

**Proposal:**

It is proposed that the rate of tax for individuals in these categories be reduced to 32%.

**Impact:**

The reduction in the rate of tax in respect of the above is expected to have a marked impact on the rate of investment and the propensity to save which would further enhance the economic growth of the country.

This reduction may also enhance Malaysia's competitiveness to potential foreign investors.

**5. REVIEW OF THE TAX STRUCTURE  
— PETROLEUM INDUSTRY**

**5.1 PETROLEUM TAX RATE**

Presently the rate of petroleum income tax is 45%.

**Proposal:**

It is proposed that the rate of petroleum income tax be reduced to 40% effective from the year of assessment 1994.

**5.2 RATE OF EXPORT DUTY ON CRUDE OIL**

Presently the rate of export duty on crude oil is 25%.

**Proposal:**

It is proposed that the rate of export duties on crude oil be reduced to 20% with effect from January 1, 1995.

**Impact:**

This reduction in the rate of petroleum income tax and export duty on crude oil is expected to encourage further exploration and enhance the investment climate for the petroleum industry.

**6. ADDITIONAL INCENTIVES FOR INVESTMENT OVERSEAS**

Presently, the government has exempted from tax 50% of the remitted income derived from overseas construction projects.

**Proposal:**

The exemption of 50% of the remitted income derived from overseas construction projects is withdrawn. It is now proposed that the total remittance from overseas project be taxed at the rate of not more than 10%. This tax rate is now extended to include companies providing services in the oil and gas industry overseas.

**Impact:**

This will encourage overseas investment and remittance of profits to Malaysia for reinvestment.

**7. PERSONAL TAX REBATE**

Presently, the personal tax rebate for individuals whose chargeable income is \$10,000 and below is \$60 for the tax payer and \$30 for his wife.

**Proposal:**

It is proposed that this rebate be now increased to \$90 for the tax payer and \$50 for his wife.

**Impact:**

This is expected to increase disposable income and hence improve the quality of life of this group of tax payers.

**8. TAX RELIEF FOR EPF, INSURANCE AND TAKAFUL**

Presently, the maximum tax relief for contribution to approved provident funds and in respect of insurance or Takaful premiums is \$3,500.



**Proposal:**

It is proposed that the maximum relief of \$3,500 is increased to \$5,000. This is effective from year of assessment 1994.

**Impact:**

It is hoped that this will encourage savings and stimulate the insurance or takaful industries.

**9. DEDUCTION FOR EPF CONTRIBUTION**

Presently, the maximum deduction allowed for EPF contribution by employers is 15%.

**Proposal:**

The maximum deduction allowed for EPF contribution by employers is now increased to 16% effective from year assessment 1994.

**Impact:**

This will encourage forced savings and improve employment benefits.

**10. WITHHOLDING TAX ON GAINS OR PROFITS FROM INTEREST-FREE BANKING SCHEME (IBS)**

Presently, the withholding tax exemption on gains or profit from IBS up to \$50,000 is only applicable to Bank Islam.

**Proposal:**

The withholding tax exemption on gain or profits from IBS up to \$50,000 is extended to all banking institutions with effect from January 1, 1994.

**Impact:**

This will eliminate the inequality in the present banking scheme and encourage savings.

**11. RELIEF IN RESPECT OF CHILD EDUCATED OVERSEAS.**

Presently, children pursuing higher education overseas are given maximum relief of \$3,200 per child.

**Proposal:**

The maximum relief for children pursuing higher education overseas is reduced to \$1,600 per child. Instead, children pursuing higher education locally are given maximum relief of \$3,200 per child.

**Impact:**

This is expected to encourage the pursuit of higher education locally and hence save on outflow of funds from the country.

**12. INCENTIVE FOR RESEARCH AND DEVELOPMENT**

Presently, the incentives available are as follows:

- i) Double deduction of expenditure which is not capital expenditure is given for approved research projects undertaken by a company either inhouse or contracted to external research companies or institutions;
- ii) Double deduction of expenditure which is not capital expenditure is given on expenses incurred by companies for the use of facilities and for services provided by approved research companies or institutions;
- iii) Double deduction for contributions in cash to approved research institutions;
- iv) Income tax exemption for a period of 5 years to approved research companies or institutions which carry out R&D for a special industry;
- v) Exemption of import duty, excise duty and sales tax on machinery/equipment, materials, raw materials and samples used for approved research projects and by research companies or institutions.

**Proposal:**

The above incentives be varied as follows:

- i) Approved research companies carrying out R&D projects for holding/affiliate/associate companies be given research allowance of 100% of the qualifying capital expenditure incurred within a period of 10 years. This allowance will be abated from the statutory income but abatement for each assessment year will be limited to 70% of the statutory income. Holding/affiliate/associate companies concerned will not enjoy double deductions for payments made to such approved research company.
- ii) Buildings used by approved research companies or institutions carrying out research are henceforth be allowed industrial building allowances;
- iii) Companies that carry out inhouse R&D to be allowed research allowance of 50% on qualifying capital expenditure (related to R&D activity) for a period of 10 years. This allowance will be granted at the statutory income level and abatement for each assessment year will be limited to 70% of statutory income;
- iv) The statutory provision for the grant of research allowance will be under the Promotion of Investment Act 1986.

This proposal is effective from October 29, 1993.

**Impact:**

It is hoped that this will hasten the industrialisation of the country in line with vision 2020. This will also help maintain and strengthen the competitiveness of local producers.

### 13. VENTURE CAPITAL COMPANIES (VCC)

Presently, the government grants incentives to VCCs which invest 100% in high risk and new technology projects.

**Proposal:**

VCCs having at least 70% of its investment in high risk and new technology projects can enjoy similar incentives with effect from October 29, 1993.

**Impact:**

This is expected to encourage and develop venture capital companies.

14. **INCENTIVES FOR INDUSTRIES IN THE EASTERN STATES OF PENINSULAR MALAYSIA AND SABAH AND SARAWAK**

Presently, companies undertaking promoted activities defined under the Promotion Act 1986 are subject to income tax at a rate of 10%.

**Proposal:**

In addition to the present tax incentives, companies undertaking promoted activities in the state of Kelantan, Trengganu and designated areas in the state of Pahang and north-east Johore, Sabah and Sarawak are subject to income tax at a rate of 5%.

**Impact:**

This is expected to promote a balanced growth of these states by encouraging investment to these lesser developed states.

15. **INCENTIVE FOR CONTRIBUTIONS TO LOW-COST HOUSING FUND**

Presently, there is no scheme to encourage contributions from banks, financial institutions and corporations for the purposes of setting up a low-cost housing fund.

**Proposal:**

It is proposed that a fund be set up to be managed by Bank Negara Malaysia. Contributions given by banks, financial institutions and corporations into the low-cost housing fund up to January 31, 1994 be given a double deduction relief. Subsequent contributions made after this date will only be given a single deduction relief.

**Impact:**

This is expected to encourage donations to the low-cost housing fund which will help overcome the serious housing problems faced by the low and medium income groups.

**16. TAX RELIEF FOR MANUFACTURING COMPANIES TO PROVIDE ACCOMMODATION FOR WORKERS**

**Proposal:**

Expenditure incurred by manufacturing companies on the construction or purchase of houses for their workers will be allowed as deduction for tax purposes.

**Impact:**

This will encourage manufacturing companies to provide accommodation which will contribute to the overall strategy of the government to overcome the increasing pressure faced by the low and medium income groups.

**17. TAX RELIEF FOR CONTRIBUTIONS TO APPROVED ENVIRONMENTAL CONSERVATION ORGANISATIONS**

**Proposal:**

All contributions to approved organisations which play an important role in environmental protection through research, dissemination of information and enhancement of public awareness on environmental issues be allowed as a deduction for income tax purposes.

**Impact:**

This is expected to encourage the activities on environmental conservation and generate greater awareness of environmental issues.

**18. TAX RELIEF FOR DONATION TO THE NATIONAL TRANSLATION INSTITUTE OF MALAYSIA (NTIM)**

**Proposal:**

All donations to NTIM be tax exempt.

**Impact:**

To encourage reading habits and to widen the usage of Bahasa Malaysia.

**19. INCENTIVES FOR SCIENTIST, WRITERS AND ARTISTES**

Presently, tax exemption on royalty received by writers is \$12,000; for artist is \$6,000; and official cash awards received by scientists, writers and artistes are exempted from income tax.

**Proposal:**

In addition to the above, fees arising from academic and creative activities in Bahasa Malaysia will be exempted from income tax.

**Impact:**

This will encourage and motivate scientists, writers and artistes to continue research and produce more original and quality works which will ultimately enrich our national heritage.

**20. TAX RELIEF FOR CONTRIBUTIONS TO PUBLIC LIBRARIES**

**Proposal:**

Contributions by companies of up to \$100,000 to build or equip public libraries, rural libraries or libraries at schools or at institutions of higher education be allowed as deductions from business income for income tax purposes.

**Impact:**

This proposal is expected to foster a knowledgeable and well read society.

**21. EXEMPTION OF INCOME FROM LITERARY, ARTISTIC AND TRANSLATION WORKS**

**Presently:**

- i) The tax exemption on payments received from translation of academic and literary works into Bahasa Malaysia is \$6,000 per annum.
- ii) The tax exemption on royalty received from academic and literary works is \$12,000 per annum.

**Proposal:**

The tax exemption on payment received from translation of academic and literary works into Bahasa Malaysia is now increased to \$12,000 per annum.

The tax exemption on royalty received from academic and literary works is now increased to \$20,000 per annum. In addition there is a tax exemption given on:

- i) Payments received from original paintings of values up to \$20,000 per annum.
- ii) Payments received by music composers up to \$12,000 per annum.

These proposals will be effective from year of assessment 1994.

**Impact:**

These incentives will encourage local writers to produce literary works which will contribute to better reading habits and also to encourage creativity among academicians and artistes.

**22. REINVESTMENT ALLOWANCE INCENTIVE**

Currently the Reinvestment Allowance is given to manufacturing companies which undertake expansion, modernisation and diversification activities. The rate of the Reinvestment Allowance is 40% of adjusted income for large scale companies and 50% for small scale companies.

This incentive is available up to December 31, 1995.

**Proposal:**

It is proposed that:

- i) Reinvestment allowance be extended indefinitely after December 1995.
- ii) The rate of Reinvestment Allowance of large scale companies be increased to 50% of qualifying capital expenditure effective from January 1, 1994.

**Impact:**

It is hoped that this will encourage existing companies to increase their rate of investment and with no time limit being imposed - facilitate long term strategic reinvestment policies.



SECTION D

AMENDMENTS TO INDIRECT TAXATION

1. INCENTIVES

1.1 TOURISM

Presently the rate of import duty on Motorised Home ranges from 140% to 300%.

Proposal:

In line with the Visit Malaysia Year 1994 programme, import duty on this type of vehicle will be reduced to 35%

Impact:

This reduction will attract more tourists to visit Malaysia because of cheaper transportation and accommodation.

Effective date: October 29, 1993.

1.2 CONSERVATION

The present incentives in the form of pioneer status, investment tax allowance, import duty, sales tax and excise duty are not attractive enough to attract the private participation in conserving the environment.

Proposal:

- a. Forest plantation activities will be recognised as a strategic industries of national important and therefore, are qualified for full tax exemption of pioneer status for 10 years or 100% investment tax allowance for 5 years effective from October 29, 1993.

- b. The price differential of 3 cents per litre is created between leaded and unleaded petrol effective from January 1, 1994.
- c. Exemption of import duty and sales tax on catalytic convertors is granted to motor vehicle assemblers. Application for these exemption should be submitted through MIDA.

**Impact:**

This will encourage private sector to contribute towards the conservation of the environment in terms of protection and preserving the flora and fauna of the country's natural forest.

**1.3 UPSTREAM PETROLEUM INDUSTRY**

At present, export duty on crude oil is 25%.

**Proposal:**

The export duty will be reduced to 20 per cent from its current rate.

**Impact:**

This reduction will stimulate development in the petroleum industry and leading to a higher contribution towards Government revenues in the future.

Effective date: January 1, 1995.

**1.4 REINVESTMENT ALLOWANCE**

Currently, this allowance is given to manufacturing companies which undertake expansion, modernisation and diversification activities. The rate is 40% of adjusted income for large scale companies and 50% for small scale companies. This incentive will expire effective from January 1, 1996.

**Proposal:**

- a. The rate will be standardized at 50%, and
- b. The incentive will be extended indefinitely after December 31, 1995.

**Impact:**

With this proposal, the rate of the reinvestment allowance applies to all companies regardless of its size, and the indefinite extension of the reinvestment allowance will attract the new and existing industries to utilise their profit for reinvestment and expansion of their operation locally.

Effective date: January 1, 1994.

**2. EXPANSION OF THE SCOPE OF SERVICE TAX**

As a measure to widen the scope of service tax, it is proposed that the service tax of 5% be imposed on the following services:

- a. Parking space services operated by companies, firms, sole proprietors, government and semi government agencies providing parking space for motor vehicles. This proposal will take effect from January 1, 1994. The threshold level in order to exempt small businesses and small customers is yet to be determined.
- b. Services provided by courier service firms with annual turnover of \$150,000 and above;
- c. Services provided by dentists having an annual turnover of \$300,000 and above; and
- d. Services provided by veterinary doctors with an annual turnover of \$300,000 and above

Effective date: January 1, 1994

**3. REVIEW IN IMPORT DUTIES**

**3.1 INCREMENT**

Presently, the import duty on superbikes with engine capacity of 500 c.c. and above is 60%.

**Proposal:**

The present rate will be increased to 120%

**3.2 REDUCTION**

Import duty on the following items are reduced as follows:

Description	Present Rate	Proposed Rate
Food Items	5% - 50%	5% - 30%
Infant and Baby Food	5% - 20%	0%
Building and Construction items	25%	15%
Stationeries and other items	15% - 55%	5% - 30%
Rubber Products	30% - 55%	25% - 40%
Wood and Paper Products	25% - 40%	5% - 25%
Apparel and Clothing Accessories	20% - 30%	5% - 25%
Footwear and Headgear	30% - 45%	5% - 30%
Ceramic and Glass Products	50%	25%
Semi-precious stones	20%	5%
Buildings and Construction Materials	25% - 50%	25% - 30%
Handtools, Implements and Cutlery	20% - 40%	5% - 25%
Households safety items	40%	25%
Machinery and Mechanical Appliances	25%	5%
Motor Vehicle Spareparts	30%	5% - 30%
Mechanical Appliances	25% - 55%	20% - 30%
Electrical and Electronic Equipments and Components	25% - 55%	5% - 30%
Ships and Floating Structure	10%	0%
Furniture	40% - 55%	30%
Miscellaneous Articles	15% - 30%	5%
Work of Arts	5%	0%
Medical Equipment	20% - 35%	5% - 35%

**Impact: .**

This reduction will create a competitive domestic market, reduce inflation and enable Malaysian to enjoy goods at lower prices.

**4. REVIEW IN SALES TAX**

Presently, some parts or component for non-taxable main machines are still subject to sales tax.

**Proposal:**

To encourage production locally, it is proposed that sales tax on parts and components for non-taxable machines be abolished.

Effective date: October 29, 1993.

**5. REVIEW OF STAMP DUTIES**

Presently, the rate of stamp duty imposed on instruments of contract notes relating to the sales of any shares, stocks or marketable securities is \$1.00 for every \$1,000.00 or part thereof of the value of any shares, stocks or marketable securities.

**Proposal:**

The stamp duty on instruments of contract notes will be increased to \$1.50.

Effective date: January 1, 1994.

**6. REDUCTION OF EXCISE DUTY**

To further strengthen the strategy on price increase and to enhance the competitiveness of the local manufacturers, it is proposed that the excise duty on certain goods produced locally be reduced with effect from October 29, 1993.

SECTION R  
SYNOPSIS AND COMPARISON

ALJEFFRI & CO.

PARTICULARS	1988 & 1989	1990 & 1991	1992 & 1993	BUDGET 1994
<b>1. PERSONAL TAX</b>				
a) Tax rates				
- Income Tax	5% - 40%	1990 : No Change 1991 : 4% - 35%	1992 : No Change 1993 : 2% - 34% (w.e.f. YA 1993) For non resident - reduced from 35% to 34%	No change  For non resident - reduced from 34% to 32%
-Development Tax	1988 : 5% on income from business and letting of property situated in Malaysia 1989 : Abolished gradually starting with a reduction of 1% (w.e.f Y/A 1990)	1990 : Reduced to 4% w.e.f Y/A 1990 1991 : Reduced to 3% w.e.f Y/A 1991	1992 : Reduced to 2% w.e.f Y/A 1992 1993 : Abolished w.e.f YA 1993	Abolished
-Excess Profits Tax	5% on taxable income in excess of \$300,000	1990 : No change 1991 : Abolished	Abolished	Abolished
b) Separate assessment of wife's income	Restricted to employment, pension, profession and and optional retirement for wife allowed for separate assessment.	1990 : No change 1991 : Income from all source allowed for separate assessment	No change	No change
c) Tax exemption :				
-Gain or profits	Gains or profit accruing on a deposit of up to \$5,000 for a calendar year on any saving account with Bank Islan Malaysia Bhd	No change	No change	No change

PARTICULARS	1988 & 1989	1990 & 1991	1992 & 1993	BUDGET 1994
- Interest on Corporate Bonds	Nil	Nil	1992 : Nil 1993 : Interest income earned by individuals from bonds issued by unlisted co. but rated by RAMB	No change
-Pensions	Withdrawn for persons with multiple pensions except for highest pension.	No change	No change	No change
-Cash award in lieu of leave received by Government servants.	Chargeable to tax	No change	1992 : No change 1993 : Exempted	No change
- Educational				
i) Royalty on works of writers - Exempt limit	\$6,000	No change	Increased to \$12,000	Increased to \$20,000
ii) Income received from translation of books and literary works - Exempt limit	\$3,000	No change	Increased to \$6,000	Increased to \$12,000
iii) Award received by writers, scientist and artists	Chargeable to tax	No change	1992 : No change 1993 : Fully exempted	No change
iv) Music composers	Chargeable to tax	No change	No change	Exempted to \$12,000
v) Fees received from meeting conference or seminar in Bahasa Malaysia	Chargeable to tax	No change	No change	Fully exempted

PARTICULARS	1988 & 1989	1990 & 1991	1992 & 1993	BUDGET 1994
d) Exemption on compensation for loss of employment	Limited to \$4,000 per complete year of service	No change	No change	No change
e) Deduction of tax from salary/remuneration	Compulsory for tax liability in excess of \$500	No change	No change	No change
f) Withholding tax on interest	1988 : Interest on F.D for less than 12 months- 5% withholding tax (final tax) 1989 : w.e.f 1/1/1989 interest earned on fixed deposit will be subject to 5% final withholding tax except for savings in Bank Simpanan Nasional and Lembaga Urusan dan Tabung Haji	No change	No change	No change
g) Savings account in :-				
i) Bank /Finance another institution -Exempt limit on interest earned.	\$5,000 (w.e.f Y/A 1988)	No change	No change	Increase to \$50,000 for Interest-free Banking Schemes (IBS)
ii) Registered cooperative, Bank Pertanian, Malaysian Building Society Bhd and Borneo Mortgage Finance Bhd - Exempt limit on interest earned	\$10,000	No change	Increased to \$50,000	No change



PARTICULARS	1988 & 1989	1990 & 1991	1992 & 1993	BUDGET 1994
h) Prize Money received by professional sportsmen	Tax at individual tax rate for local sportsmen and subject to 15% withholding tax for foreign sportsmen.	Exempt from income tax w.e.f Y/A 1990	No change	No change
i) Child Relief		1990 : No change	No change	a) A maximum relief for children receiving full-time education in universities and institutions of higher education in Malaysia -increased to four times the normal relief (\$3,200)
-1st child	\$650	1991 : Uniform rate of \$800 for 1st to 5th child.		b) A maximum relief for children abroad at universities and institutions of higher education reduced to twice the normal relief (\$1,600)
-2nd child	\$750			
-3rd child	\$800			
-4th child	\$800			
-5th child	\$800			
j) Disable child relief	\$400	1990 : No change 1991 : Increased to \$1,000	1992 : Increased to \$1,600 1993 : No change	No change
k) Wife relief	\$2,000	1990 : No change 1991 : Increased to \$3,000	No change	No change
l) EPF contribution and insurance premium reliefs	\$3,500 shared between taxpayer and spouse	1990 : No change 1991 : \$3,500 allowed to each taxpayer and spouse	No change	\$5,000 allowed to each taxpayer and spouse
n) Rebate	Taxable income below \$10,000 \$60 - personal \$30 - wife	No change	No change	\$90 - personal \$50 - wife

PARTICULARS	1988 & 1989	1990 & 1991	1992 & 1993	BUDGET 1994
<b>2. CORPORATE TAX</b>				
a) Tax rates				
-Income tax	1988 : 40% 1989 : 35%	No change	1992 : No change 1993 : 34% (w.e.f YA 1993)	32% w.e.f. 1994 and 30% w.e.f. 1995
-Development tax	1988 : 5% 1989 : Abolished gradually starting with a reduction of 1% (w.e.f Y/A 1990)	1990 : reduced to 4% 1991 : reduced to 3%	1992 : reduced to 2% 1993 : Abolished (w.e.f YA 1993)	Abolished
b) Withholding tax on interest payments on Foreign Loans	20%	No change	No change	No change
c) Insurance				
i) Export credit insurance premiums	Double deduction allowed on premium payments	No change	No change	No change
ii) Life insurance companies- -Commission paid	Not deductible where gross premiums receivable for Y/A 1987 : - >\$50m w.e.f Y/A 1988 - >\$10m - <\$50m w.e.f Y/A 1990 - <\$10m w.e.f Y/A 1992	No change	No change	No change
-Allowable Deduction	Allowable deduction of 2% of the balance of revenue account at the end of basis period w.e.f Y/A 1988.	No change	No change	No change

PARTICULARS	1988 & 1989	1990 & 1991	1992 & 1993	BUDGET 1994
d) Approved revenue research expenditure	Double deduction on approved expenditure	No change	No change	No change
e) Payment of income tax	30 days from date of service of notice of assessment. Compulsary tax instalment w.e.f. 1/1/89 as directed by DGIR.	No change	No change	No change
f) Dividends received	1988 : Tax at source at 40% 1989 : Tax at source @ 35%	No change	1992 : No change 1993 : Tax at source at 34%	Tax at source at 32% for YA 1994 Tax at source at 30% for YA 1995

PARTICULARS	1988 & 1989	1990 & 1991	1992 & 1993	BUDGET 1994
g) Entertainment expenditure	<p>1988 : Allowed as a deduction to arrive at chargeable income (both Individuals and Companies) if incurred wholly and exclusively in the production of gross income.</p> <p>1989 : Entertainment expenditure/ allowance disallowed as expense in arriving at the chargeable income, except :</p> <ul style="list-style-type: none"> <li>i) entertainment given to employees;</li> <li>ii) entertainment provided for payment by a business where the nature of business is to provide entertainment for payment.</li> <li>iii) expenditure on promotional gifts or samples.</li> <li>iv) the provision of entertainment for cultural or sporting events open to members of the public, wholly to promote the business of that person.</li> </ul>	No change	No change	No change

PARTICULARS	1988 & 1989	1990 & 1991	1992 & 1993	BUDGET 1994
h) Bonus Restriction	<p>1988 : Maximum of \$1,000 or 2/12 of annual salary whichever is greater.</p> <p>1989 : Maximum of \$2,000 or 2/12th of annual salary plus any additional sum which shall not be more than twice the percentage increase in the company's current year's net profit before tax when compared to the previous year's net profit before tax.</p>	<p>1990 : Abolished. However bonus paid are subject to E.P.F contribution w.e.f Y/A 1990.</p> <p>1991 : No change</p>	No change	No change
i) Free air passage for employee and immediate family	<p>1988 : No restriction to MAS tickets or tickets issued by MAS</p> <p>1989 : Expenditure on free passage be disallowed as a deduction to the employer but continue to be tax exempt in the hand the employees</p>	No change	No change	No change

PARTICULARS	1988 & 1989	1990 & 1991	1992 & 1993	BUDGET 1994
j) Overseas promotion to hotel & tour operators	Nil	1990 : Double deduction allowed on certain expenditure w.e.f Y/A 1991. 1991 : Double deduction extended to maintenance of overseas sales office	No change	No change
k) Approved training expenses for tourism industry	Nil	1990 : Double deduction allowed on approved training w.e.f Y/A 1991. 1991 : No change	No change	No change
l) Tours operators-Abatement of adjusted income.	Nil	1990 : Full abatement if group tours from overseas exceed 500 tourists through air passage 1991 : Extended for another 3 years until 1993.	No change	Period extended to year 2000 through air, sea and land passages
m) Publishing and Translating Expenses	Nil	Nil	1992 : No change 1993 : Expenses incurred in publishing or translating academic, technical, literary and cultural books which were approved by Dewan Bahasa dan Pustaka deemed deductible expenditure in arriving at adjusted business income	No change

PARTICULARS	1988 & 1989	1990 & 1991	1992 & 1993	BUDGET 1994
n) Approved Operational Headquarters Companies	Nil	1990 : Nil 1991 : Dividend received from related companies exempted - restricted to manufacturing companies	1992 : No change 1993 : Extended to cover the services sector w.e.f 1st. January, 1993	Extended to cover services provided to commercial and investment banking companies
o) Petroleum sector	45%	No change	No change	Reduced to 40%
p) Contribution to Education	Nil	Nil	Nil	Contribution up to \$100,000 to build and equip libraries be allowed for deduction
<b>3. COOPERATIVE INCOME TAX</b>				
Tax rates	5% - 40%	No change	1992 : Tax rates reduced, now ranging from 4% to 35% 1993 : 2% to 34% (w.e.f YA 1993) (same as personal income tax)	No change
<b>4. CAPITAL ALLOWANCES</b>				
a) Industrial building allowance	Hotel business carried on by pioneer company. -Hotel building of approved standard in Malaysia. Extending or modernising an existing hotel building to approved standard in Malaysia.	No change	No change	Deduction on expenditure for providing child care facilities for employees - deduction of 1/10 of that expenditure annually for a period of 10 years

PARTICULARS	1988 & 1989	1990 & 1991	1992 & 1993	BUDGET 1994
b) Accelerated depreciation allowance (ADA)	1988 : Initial - 20% Annual - 40% (heavy construction equipment does not qualify for this allowance- w.e.f. YA 1987)) 1989 : Expired and not extended.	No change	No change	No change
c) Construction of public road by private sector	Construction costs of public roads under privatisation programme to be treated as qualifying building expenditure. Initial - 10% Annual - 6%	No change	No change	No change
d) Motor vehicle qualifying limit	\$25,000	1990 : No change 1991 : Increased to \$50,000	No change	No change
e) Rent paid on hired/leased motor vehicle qualifying limit	\$25,000	1990 : No change 1991 : Increased to \$50,000	No change	No change



PARTICULARS	1988 & 1989	1990 & 1991	1992 & 1993	BUDGET 1994
f) Reinvestment allowance	Capital expenditure incurred from 1.1.1988 to 31.12.1990 at 40% rate.	1990 : No change 1991 : Period extended to 31.12.1995. Scope expanded to the following purpose: -modernisation and upgrading of production process. -products diversification	No change	Rate increase to 50% and period extended
<b>5. PROMOTION OF INVESTMENTS</b>				
Investment Incentives Act, 1968 was repealed w.e.f 1.1.86 and was subsequently replaced by Promotion of Investment Act 1986 (PIA) w.e.f April 1986.				
a) Pioneer status	For 1st 5 years, 100% of the income exempted from tax. Extended to 10 years for specific industries.	No change	30% of the statutory income will be taxed at corporate tax rate.	No change

PARTICULARS	1988 & 1989	1990 & 1991	1992 & 1993	BUDGET 1994
b) Abatement of adjusted income for compliance with Government policy	Abatement of 5% of adjusted income for 5 years of assessment from the year in which the Co. is first given the abatement.	No change	No change	No change
c) Incentive for construction companies	1988 : Nil 1989 : i) income earned from overseas construction project and remitted to Malaysia be abated by 50%. Dividends paid out of the tax exempt income will also be tax exempt.  ii) applicable to projects implemented from Budget Day to 1993 and whose income is brought back within 5 years from commencement of the projects.	No change	No change	i) Double deduction for donation to the Low-cost Housing Fund. ii) A special building allowance for the purchase or construction of buildings for accommodation of employees in manufacturing business of 1/10 annually for 10 years
d) Incentive for rattan and wood based industries	Eligible for incentive if export sales are 80% or more	Eligible for incentive if export sales are 60% or more provided 51% of equity is owned by Malaysian. For Sabah & Sarawak there are additional incentives.	No change	No change

PARTICULARS	1988 & 1989	1990 & 1991	1992 & 1993	BUDGET 1994
e) Incentive for Overseas Investments	Nil	1990 : Nil 1991 : With effect from year of assessment 1992 : i) 50% abatement on the remittance of income earned from overseas. Dividend paid from the tax exempt income would also be exempted from income tax. The exemption is for a period of 5 years after a company commences operation and earns profit  ii) Pre-operating expenses such as cost of market research would be allowed as a deduction for income tax purposes	No change	Rate increase to 70% No limit period
f) Incentive for Export Promotion	Nil	1990 : Nil 1991 : Double deduction for certain expenses to local companies participating in international trade fairs approved by Ministry of International Trade and Industry. w.e.f Y/A 1992	1992 : No change 1993 : No change except Export Rebate Scheme on agricultural products be abolished	No change

PARTICULARS	1988 & 1989	1990 & 1991	1992 & 1993	BUDGET 1994
g) Incentive on training i) In-house and external training for manufacturing industry.	Nil	1990 : Double deduction scheme for manufacturing industry :- 1991 : Double deduction extended to cover : a) Manufacturing companies in the production stages undertaking training programme relating to productivity and quality control improvement. b) New manufacturing companies undertaking training on craft supervisory and technical skills contributing directly to future productions	No change	No change
ii) Direct Approval for Training in Approved Institution	Nil.	1990 : Nil 1991 : i) Widen to serve the needs of all industries. ii) Only expenses billed by respective training institutions are allowable on claims for double deduction.	No change	No change

PARTICULARS	1988 & 1989	1990 & 1991	1992 & 1993	BUDGET 1994
iii) Training Incentive for Handicapped persons	Nil	1990 : Nil 1991 : Double deduction on expenses incurred in training of any handicapped person not an employee of company approved by Ministry of National Unity and Social Development w.e.f. Year of assessment 1992.	No change	No change
iv) Incentive for research and development	Nil	1990 : Nil 1991 : Applicable to approved research companies / institution:- i) 5 years tax exemption on tax for dividends received by the shareholders as well. ii) Accumulated losses allowed to be carried forward after the exemption period. iii) Double deduction for cash contribution. iv) Double deductions allowable on expenses incurred for the use of this facilities and services. v) 5 years tax exemption for new technology based firm.  Proposals effective from the Year of Assessment 1992.	No change	Applicable to approved research companies / institution :- i) Research allowance of 100% of the qualifying capital expenditure incurred within a period of 10 years. ii) Building used to carry out research are henceforth be allowed industrial building allowance. iii) Research allowance of 50% on qualifying capital expenditure for companies that carry out in-house R & D. iv) The statutory provision for the grant of research allowance will be under the Promotion of Investment Act 1986. v) The definition of venture capital allowance (VCC) be reduced from 100% to 70% in high risk and new technology projects. The investment qualifying criteria be abolished.

PARTICULARS	1988 & 1989	1990 & 1991	1992 & 1993	BUDGET 1994
b) Incentives for industries based on location	Nil	Nil	Nil	Industries located in the Eastern Corridor of Peninsular Malaysia, Sabah and Sarawak :  a) Pioneer status companies - 85% of their statutory income. b) ITA - the rate of allowance increased to 80% and 85%.
i) Incentive for the Environment	Nil	Nil	Nil	i) Import duty and sales tax exempted for catalytic converters. ii) Donation to an approved organisation established exclusively for the protection and conservation of the environment. iv) Pioneer status and ITA for forest plantation project.

PARTICULARS	1988 & 1989	1990 & 1991	1992 & 1993	BUDGET 1994
<b>6. REAL PROPERTY GAINS TAX</b>				
a) Exemption	Land belonging to a deceased person in settlement of estate duties payable and cross transfers between co-proprietors	No change	No change	No change
b) Resident company rate	Scale from 20% to 10% over a period of 4 years. 5% from the fifth year onwards.	No change	No change	No change
c) Non-resident company rate:	Same as resident company	No change	No change	No change
d) Resident individual rate	Scale from 20% to 5% over a period of 5 year. Exempted in the 6th. year onwards.	No change	No change	No change
e) Non-resident rate	Same as resident individual	No change	No change	No change
f) Disposal of shares in Real Property Companies	1988 : Nil 1989 : Subject to RPGT	No change	No change	No change

PARTICULARS	1988 & 1989	1990 & 1991	1992 & 1993	BUDGET 1994
<b>7. SHARES (LAND BASED COMPANY)</b>				
TRANSFER TAX ACT 1984.				
a) Rates	1988 : 2% Conditions stipulated under the new section 4A.	No change	No change	No change
	1989 : Repealed Gain on disposal now subject to RPT.			
b) Exemption under Section 4A	1988 : Exemption granted will be withdrawn if fail to comply with conditions stipulated under Section 4 within the period of 3 years from date of approval.	No change	No change	No change
	1989 : Repealed - taxable under RPT.			



PARTICULARS	1988 & 1989	1990 & 1991	1992 & 1993	BUDGET 1994
<b>8. IMPORT AND EXCISE DUTIES AND SURTAX</b>				
Rationalisation of import duty and surtax.	<p>1988 : 1,300 items consolidated Ad Valorem rate instead of specified rate.</p> <p>1989 : Import duty reduced between 20% to 87% on certain manufactured goods.</p>	<p>CKD component for locally assembled lorries &amp; buses exempted from import &amp; excise duty.</p> <p>Import duty reduced between 30-20% for foodstuff, household goods, manufacturing inputs, pharmaceutical product and agricultural inputs.</p> <p>Abolition of surtax proposed for certain foodstuff, household goods and agricultural inputs.</p> <p>Excise duties reduced between 5% - 20% for matches, lighters and refrigerators.</p> <p>Excise duty on motor-cycles not exceeding 150 cc reduced from 20% to 10%.</p>	<p>1992 : Import duties on</p> <p>a) Cigarettes - increased by 54% to 56% per kg.</p> <p>b) Cigars, cheroots &amp; cigarillos - increased by 55% to 65% per kg.</p> <p>c) Beer, stout &amp; alcohol &amp; beverages increased between 50% to 185%.</p> <p>d) Non-monetary gold bullion - 10% exemption for producer of jewel-leries exporting their product.</p> <p>e) Textile - reduced to 2% - 20%.</p> <p>f) Printing industries - reduced to 0% - 35%.</p> <p>g) Food - reduced to 30%.</p> <p>h) Chemical - reduced to 2% - 10%.</p> <p>i) Metal - reduced to 2%</p>	<p>Import duties on</p> <p>a) Superbike of engine capacity 500 cc and above increase from 60% to 120%</p> <p>b) Infant and baby food abolished</p> <p>c) Medical equipments reduced to 5% - 35%</p> <p>d) Food - reduced to 5% - 30%</p> <p>e) Building and construction items reduced to 15%</p> <p>f) Stationeries and other items reduced to 5% - 30%</p> <p>g) Rubber products reduced to 25% - 40%</p> <p>h) Wood and paper products reduced to 5% - 25%</p> <p>i) Apparel and clothing accessories reduced to 5% - 25%</p> <p>j) Footwear and headgear reduced to 5% - 30%</p>

PARTICULARS	1988 & 1989	1990 & 1991	1992 & 1993	BUDGET 1994
		Exemption of import duty & surtax for sports goods.	1993 : Import duties on a) vessel exceeding 25 GWT - abolished	k) Ceramic and glass products reduced to 25%
		Import duties of spare parts to be harmonised with import duties of finished goods.	b) Cigars, cheroots & cigarillos - increased by \$27 per kg.	l) Semi-precious stones reduced to 5%
		Increased excise duty -Cigarettes by \$4/kg -Beer/Stout by \$0.50/ litre	c) Beer, stout ,alcohol & beverages increased by 15%	m) Building and construction materials reduced to 25% - 30%
			d) Gold- reduced to 5%	n) Hand tools, implenents and cutlery reduced to 5% - 25%
			e) 600 items including food, household goods, clothing , electrical & electronic goods reduced between 10% to 30% or even abolished	o) Household safety items reduced to 25%
			f) Component parts used in the production of duty free finished goods - abolished	p) Machinery and mechanical appliances reduced to 5% - 30%
			g) Computers and components - abolished	q) Spare parts for vehicles reduced to 5% - 30%
			h) sports equipment for football & equestarian sports - reduced or abolished	r) Electrical and electronic equipments and components reduced to 5% - 30%
				s) Ships and floating structures abolished

PARTICULARS	1988 & 1989	1990 & 1991	1992 & 1993	BUDGET 1994
				t) Furniture reduced to 30%
				u) Miscellaneous articles including artists brushes and travel sets reduced to 5%
				v) Works of art abolished
				w) Motorised home - reduced to 35%
				x) Goods brought in by passenger for personal use reduced to 30%
			Excise duty on	Excise duty on
			a) Cigarettes - increased by 100% per kg	a) food seasoning - reduced to 12%
			b) Beer, stout & alcohol - increased by 30%	b) Dry batteries reduced to 4% - 7%
				c) Tyres for motor vehicles reduced to 13 cents/kg subject to minimum \$1.20 and maximum \$6.00 each

PARTICULARS	1988 & 1989	1990 & 1991	1992 & 1993	BUDGET 1994
9. SALES TAX	1988 : 5% on foodstuff, building material and semi processed goods.  10% on other goods which are not basic necessities.	No change	No change	No change.
	1989 : No change except additionally imposed on other foodstuffs and building materials and on certain video cassette tapes			
Exemption	Raw materials and components manufactured for export.	Further exemption for the following goods : Pewterware sold to tourists Concrete building material & sawn timber. Meat.	No change	Machine components including components for generators turbines, boilers and welding machines - abolished.

PARTICULARS	1988 & 1989	1990 & 1991	1992 & 1993	BUDGET 1994
<b>10. SERVICE TAX</b>				
a) Rates on taxable goods and services	5%	Certain sport goods	1992 : Service tax charge extended to : i) Legal, architectural, accounting, surveying and engineering firms, private hospitals & consultancy firms having turnover >\$300,000 p.a ii) Advertising firms with turnover >\$500,000 p.a iii) Forwarding agents, large licenced motor vehicle service & repair centres with turnover > \$150,000 p.a iv) Insurance companies for insurance premium paid by business establishments.	Service tax charge extended to : i) parking services ii) courier services with annual turnover of \$150,000 and above iii) Dentist with annual turnover of \$300,000 and above iv) Veterinarian with annual turnover of \$300,000 and above
b) Exemption levels	1988 : Nil 1989 : 6 rooms and below (Hotel industries)	25 rooms and below (Hotel industries)	1993 : Service tax charge extended to : i) Telecommunication services ii) Security guard services iii) Estate agents and recreational clubs	No change

PARTICULARS	1988 & 1989	1990 & 1991	1992 & 1993	BUDGET 1994
<b>11. OTHER SIGNIFICANT TAXES</b>				
Stamp duty :	1988 : 0.5%			
a) Corporate bonds at	0.1%	No change	No change	No change
-time of issue	0.3%			
-time of transaction				
-time of transfer	1989 : Exempted			
b) Share and property unit trust	1% for unlisted and 0.3% for listed.	Exempted w.e.f 1.1.90	No change	No change
c) Certificate of deposit	\$3.00	Abolished w.e.f 1.1.90	No change	No change
d) Instruments of transfer of property	Nil	Nil	1992 : Nil 1993 : Increased from a maximum rate of 2% to 4% which cover properties valued at more than \$500,000	No change
e) Contract notes	\$1.00 for every \$1,000	No change	No change	\$1.50 for every \$1,000
<b>12. AGRICULTURAL SECTOR</b>				
Deduction for capital expenditure on approved agricultural projects	1988 : Nil 1990 : Expenditure be allowed as a deduction from aggregate income (w.e.f Y/A 1989)	No change	No change	No change

PARTICULARS	1988 & 1989	1990 & 1991	1992 & 1993	BUDGET 1994
<b>13. ROAD TRANSPORT ACT 1987</b>				
a) Transfer fee from individual to company	\$300	Reduced to \$100	No change	No change
b) Motorcycle - Road Tax	250cc - 500cc -\$150 p.a. > 500cc - \$0.50 per cc.	250cc - 500cc -\$100 p.a. > 500cc - Flat rate \$130 p.a.	No change	No change
c) Buses and lorries owned by driving school	Average \$1,500 p.a for buses \$5,300 p.a for lorries	Flat rate \$600 p.a	No change	No change
<b>14. EXPORT DUTY</b>				
a) Rubber and Pepper	Export duty imposed	1990 : No change 1991 : Abolished	No change	No change
b) All Minerals	Export duty imposed	1990 : No change 1991 : Abolished	No change	No change
c) Crude Oil	Exemption of 20% on cost oil	1990 : No change 1991 : Maximum of 50% exemption on actual cost oil	No change	Reduced from 25% to 20% w.e.f. 1/1/95
d) Rubber Discount Scheme	Discount of 20% sen/kg on the purchases of local rubber used to manufacture products for the export market.	1990 : No change 1991 : Withdrawn	No change	No change
e) Tin Rebate Scheme	Rebate of \$700 per ton given	1990 : No change 1991 : Withdrawn	No change	No change

PARTICULARS	1988 & 1989	1990 & 1991	1992 & 1993	BUDGET 1994
<b>15. OTHER MONETARY MEASURES</b>				
a) EPF Contribution	Employer - 11% (Maximum contribution by employer - 15%) Employee - 9%	No change	1992 : No change 1993 : Employer - 12% Employee - 10%	Maximum contribution by employer increased to 16%
b) Housing Loan	Nil	Nil	1992 : Nil 1993 : Interest rate ceiling of 9% for housing loan below \$100,000 be maintained. Government will provide 1% interest subsidy to the financial institution	No change



## SECTION F

## SUMMARY OF REVENUE AND ALLOCATION

## 1. STATISTICS

	(In \$'000,000)		Percentage of Total		Increase/ (Decrease) in Dollar value
	1994 \$	1993 \$	1994 %	1993 %	%
Source of revenue :					
Income tax	17,581	16,274	39.3	39.4	8.0
Indirect taxes & duties	15,837	14,446	35.4	35.1	9.6
Non tax & other tax revenues	11,312	10,511	25.3	25.5	7.6
<b>Total</b>	<b>44,730</b>	<b>41,231</b>			<b>8.5</b>
Budget Allocation :					
Operating expenditure :					
Emolument, pension, gratuity	14,848	14,210	31.5	33.3	4.5
Debt servicing charges	7,353	7,248	15.6	16.9	1.4
Supply & services	4,384	4,367	9.3	10.2	0.4
Grants & other expenditure	6,694	6,490	14.2	15.2	3.1
	<b>33,279</b>	<b>32,315</b>			<b>3.0</b>
Development Expenditure :					
Economic	7,070	4,873	15.0	11.4	45.1
Social	3,205	2,398	6.8	5.6	33.7
Security	2,545	2,240	5.4	5.2	13.6
Contingency reserve	518	* 500	1.1	1.2	-
General administration	518	410	1.1	1.0	26.3
	<b>13,856</b>	<b>10,421</b>			<b>33.0</b>
<b>Total expenditure</b>	<b>47,135</b>	<b>42,736</b>			<b>10.3</b>
Borrowing and use of Government Assets					
	<b>2,405</b>	<b>1,505</b>			<b>59.8</b>

Note: 1993 figures are latest estimates as published in the Economic Report with the exception of the figure \* for contingency reserve included in development expenditure which amount has not been disclosed in the said report but reflects the normal reserves made by the Government.

**2. REVENUE**

- \* Total revenue for 1994 is projected at \$44.7 billion with an increase of 8.5% over estimated revenues for 1993.
- \* Direct taxes comprising income tax on companies, individuals and others are projected to increase by 8.0% from 1993. The main contributor to this is the projected 10% increase in corporate and individual tax collections; despite a substantial decrease in the corporate income tax rate and additional tax rebates for individuals.
- \* The projected increase in revenues from indirect taxes of about 9.6% from 1993 is chiefly due to increased revenues from import duties and surtax, excise and sales tax. Again the increase is not due to an increase in rates; the budget in fact proposes substantial decreases in food items, building and construction materials, household items, machinery, etc. The Government expects increased revenue collections due to increased demand for such products.
- \* Non tax and other tax revenues comprising income after tax from public sector enterprises, interest and returns on Government investments, royalties, stamp duties and other contributions are expected to increase by 7.6% from 1993 compared to a projected decrease of 8.5% from 1992 to 1993. Further information on the components of the increase is not available and therefore it cannot be assumed that the performance of the public sector enterprises will improve. However, such revenues could be on the rise on account of the Government's continued efforts at privatisation of Government bodies; sale of public sector enterprises would nett for the Government cash reserves.

**3. EXPENDITURE**

- \* Total budgetted expenditures are expected to increase from an estimated \$42.7 billion in 1993 to \$47.1 billion representing a percentage increase of 10.3%.
- \* In percentage terms there will be a substantial increase of nearly 33% in development expenditure compared to a minimal 3% increase from 1993 in operating expenditure. Rising expenditure on economic and social services comprising transport, trade and industry, education and housing account for the increase in developmental expenditure.

- \* In respect of operational expenditure the largest increases are on emoluments, pensions and gratuity and in grants. In dollar terms operational expenditure comprises 70.6% of total budgetary allocation.

#### 4. ANALYSIS OF CHANGES

- \* Compared to projected revenues of \$39.1 billion for 1993 the estimated actual revenues of \$41.2 billion indicates a commendable performance. Based on the past records a projection of \$44.7 billion is an achievable target and this despite substantial reductions in direct and indirect taxes. This reflects the Government's strategy to increase revenues by stimulating the private sector's performance and improving collection procedures; and is part of the Government's continued efforts at tax reform.
- \* Viewing the contribution to revenue of the different categories of tax and non tax sources, it appears that there is no over reliance on any one source. The changes from year to year are fine tunings of a fiscal policy to accommodate economic reality and to ensure a proactive stance.
- \* Indirect taxes have been reduced substantially in order to primarily combat inflation and to integrate Malaysia into the world economy ahead of the conclusion of the Uruguay round of talks on GATT to be scheduled before the end of 1993.
- \* Although the Government is containing its expenditure (this being a balanced budget), a major point of concern is that expenditure on emoluments continues to be the largest category of total expenditure representing one third of total budgetary allocation. The Government must continue with its privatisation programmes as even in the West it is recognised what the Government can do the private sector can do better at lower costs.
- \* Allocations on education, transport and trade and industry have increased substantially; but more needs to be done if Malaysia is to achieve the targets set by VISION 2020. Investments in education, infrastructure, the environment, research and development are essential if Malaysia is to achieve developed status.
- \* Of great significance is the Government's efforts at promoting science and technology. Malaysians look forward to more projects similar to the upcoming planetarium as these will revive public interest in science and technology which are the building blocks of an industrialised and advanced economy.

5. MACRO ECONOMIC VIEWPOINT

- \* Overall the Malaysian economy is well managed as is evident from the impressive growth in Gross Domestic Product at rates of 7% to 9% in six consecutive years. The balanced budget also reflects the fact that the Government does not have a tax and spend attitude which has become the bane of the Governments of many Western countries from the USA to Europe, resulting in large budgetary deficits. Even China which is experiencing high inflationary pressures is striving to control governmental expenditures in its efforts to cool the economy. Growth is good but growth without spiralling inflation is even better.
- \* There are however grave dangers ahead which we must be prepared for and should have the ability to overcome. Infrastructural constraints must be removed before these regress our development and become insoluble. Labour shortages and lack of skilled manpower which are major impediments to the small and medium scaled industries should also be resolved. The Government has recognised that the small and medium scaled industries are the actual backbone of an industrial economy and must be nurtured; Japan's economic miracle was possible because of its strong support industries.
- \* The Government's monetary policies aimed at controlling inflation coupled with its public awareness programmes are all necessary and have proven to be successful. There is confidence that this Government knows what it is doing and confidence after all is the foundation upon which business and economic performance is possible.

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